

Relationships between Employee Training and Job Creation: An Investigation of Spillover Effects between Large Enterprises and Small & Medium Enterprises

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This paper analyzes relationships between employee training and employment at the firm level acknowledging that firms are a main agent of job creation. It aims to identify if firms can create jobs by investing in manpower, not in machines or facilities. It also tries to consider spillover effect between firms. In this paper, a spillover effect between firms is defined as the effect of one firm's advanced employee skill level on another firm's increase of employment. It especially separates the conglomerates(aka chaebols in Korea) from the other large enterprises and explores spillover effect from the conglomerates. Then, this research analyzes the effect of employee training by the conglomerates, which are at the topmost layer in business ecosystem, on employment of large, medium, or small businesses, and vice versa.

This paper explains the effect of employee training on employment through examining theories in diverse fields because there is a dearth of studies on this topic. It includes different perspectives such as 'production effect', 'substitution effect', 'interaction with technology', 'employee commitment effect', and 'coordination with business strategy'. Furthermore, it includes theoretical examination on spillover effect of employee training on employment between firms. It borrows theories from 'knowledge sharing' and 'transaction relationships' studies because again there are only limited studies done in this topic. This paper particularly adds 'trickle-down effect' and 'dual structure theories' to explain spillover effect from large to small and medium enterprises.

From empirical research and case studies this paper proves that, although

results vary by industries, employee training positively affects job creation. Empirical analysis also confirms that employee training has a larger effect on job creation through ‘interaction with technology’.

Though empirical analysis verifies that advanced employee skill level of small and medium enterprises has ripple effect on employment increase of large enterprises, case studies illustrate a more complicated pathway of ripple effect. A difference between industries is also noted. In business ecosystem, advanced employee skill level of smaller enterprise has a positive effect on employment increase of larger enterprise. On the other hand, advanced employee skill level of larger enterprise has no or negative effect on employment increase of smaller enterprise. In other words, the trickle down effects from the conglomerates to other enterprises, from large to small and medium enterprises are not observable or have negative effects. This phenomenon appears more clearly in the conglomerate case. Case studies do not find any evidence of the trickle-down effects, either. Moreover, increase in market share of larger enterprises does not guarantee gradual and steady increase in supply of subcontractors, which are small and medium enterprises. Only small and medium enterprises that possess independent technologies experience increase in investment of facilities and equipment and employment increase in response to supply expansion. Rather, customer diversification is a crucial factor in employment increase of small and medium enterprises.

Analytical results of this paper arrive at policy implications that improvements in employee skill level of small and medium enterprises and in business relations between firms play critical roles in job creation throughout the economy. This also has an important implication with regard to achieving 70% of employment rate and economic democratization, both of which are keystones of administrative priorities of the current government.